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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

1/10/77

MEMORANDUM FOR THE PRESIDENT

The study on sustaining expanded timber harvests from Federal, State and private land, and other means of increasing timber yield has been completed, and is being reviewed by Cecil Andrus, Charles Warren, Charles Schultze, Jim McIntyre and Stu Eizenstat.

A copy of the final draft is attached.

Attachment

(7/14)
2-3 days for final, per draft.
Lemon was called back.
Ok to hold for final
draft from Eizenstat
- expected end of
week - per Paul
Lemon
Bay

MEMORANDUM FOR: THE PRESIDENT

FROM: BOB BERGLAND
CECIL ANDRUS
CHARLES WARREN
CHARLES SCHLUTZE
JIM MCINTYRE
STU EIZENSTAT

SUBJECT: Timber Harvests and Inflation

As part of your April 11 anti-inflation statement, you asked for our evaluation of "the best way to sustain expanded timber harvests from Federal, State and private land and other means of increasing timber yield in ways that would be environmentally acceptable, economically efficient, and consistent with sound budget policy." As our delay in reporting to you suggests, we have found these requirements demanding.

Procedure

A work group was established to explore this matter, consisting of representatives from the Departments of Agriculture and the Interior, the Councils on Environmental Quality and Wage and Price Stability, and the Office of Management and Budget. Policy level representatives from these agencies reviewed the materials developed by the work group, and participated in the development of this memorandum.

The attempt was made to identify the sources of upward pressure on lumber and plywood prices, and to assess the prospective sources of such pressure over the coming decade. In recent years it has been the prices of softwood lumber and plywood that has lead the inflationary spiral, not hardwoods, and since they are expected to be the main source of potential price inflation in the future, the focus in this

memorandum is on the softwoods.

Opportunities for increasing softwood sawtimber supplies from private and public lands have been examined to the degree data availability permits, taking into account economic, legal, procedural and budgetary constraints. A general strategy designed to constrain timber product prices evolves from these reviews and assessments.

Background

Historically, lumber prices have increased relative to the overall rate of price inflation. Although there have been intervals of a decade or two, such as the 1950-67 period, when there was little change in lumber prices relative to the general wholesale price level, the long-run trend since 1800 has been for lumber prices to exceed all commodity prices by an annual rate of 1.7 percent (Figure 1).

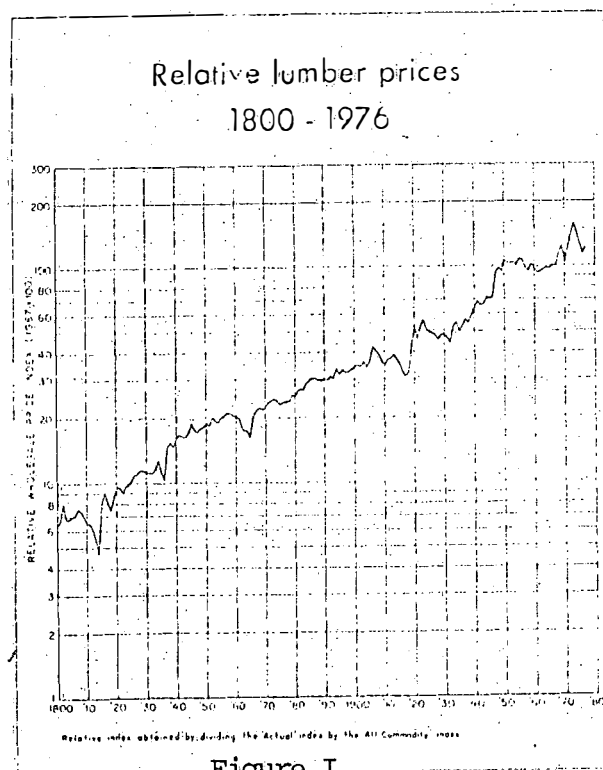


Figure I

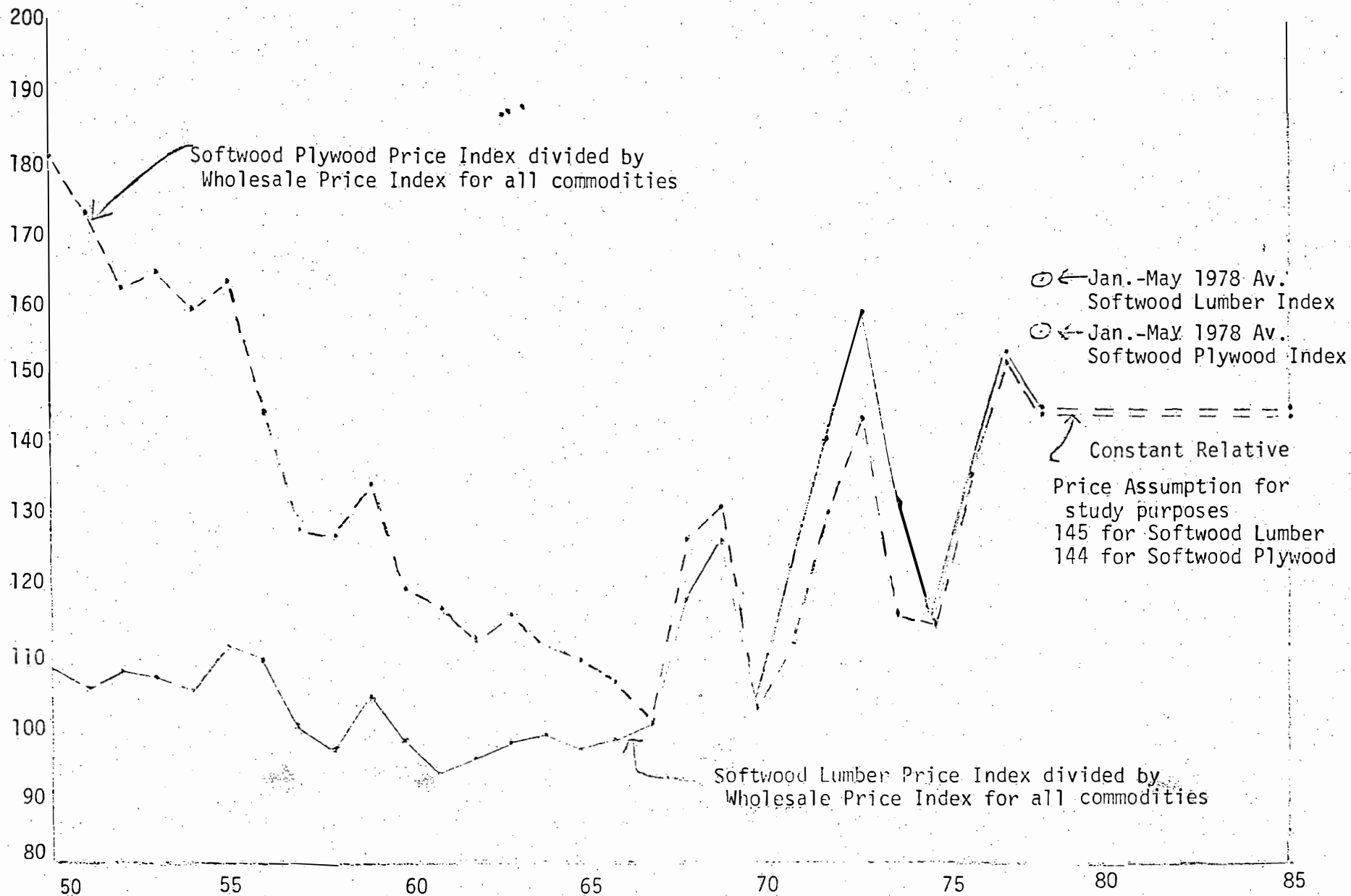


Figure II

Softwood lumber prices increased sharply after World War II, along with housing starts, to a level that created the incentive to seek substitutes for lumber in construction. Steel posts and I-beams came into wide use for single housing construction; brick and concrete block and slab construction expanded. In addition, plywood, which had been used widely for military housing during the war, began to be widely substituted for lumber in housing and other uses.

From 1950 to 1967 lumber prices actually declined relative to prices generally (Figure II), and even though the growth in use of plywood was extremely rapid, production increased faster and prices declined (Figure III).

From 1967 to 1977 softwood lumber and plywood prices moved upwards at an annual rate of 11.5 percent, compared with 6.9 percent for all commodity prices at wholesale. Since 1950 hardwood lumber prices have increased at essentially the same rate as commodity prices generally. Hardwood plywood prices were stable from 1950 to 1972, but have risen at a 3.7 percent rate since then. They have continued to decline relative to all commodity prices over the past 27 years.

Softwood lumber and plywood prices increased most rapidly from 1967 to 1969, 1970 to 1973, and 1975 to 1977. They declined from 1969 to 1970, from 1973 to 1975, and are expected to decline during the last half of 1978. Lumber prices are expected to decline more rapidly than plywood prices.

The sharp upward movement in softwood lumber and plywood prices, followed

by a pause or decline, has been associated with changes in housing starts, especially for single family dwellings. Because housing starts are expected to decline into 1979 due to high interest rates, softwood lumber prices are expected to decline 10 to 15 percent by November and then remain relatively stable until the next boom in housing begins; softwood plywood prices are expected to remain essentially stable or to decline about 5 percent. Favorable economic conditions could bring housing construction in 1980 up to the 1977 level, but several forecasters expect the housing sector to remain depressed through 1980. As long as the housing sector remains depressed, we do not expect softwood lumber and plywood prices to be adding to general price inflation. This provides the opportunity for more careful consideration of timber harvest prices.

Future Demand for Softwood Sawtimber

After declining over the next year or two, housing starts should increase rapidly in the early 1980's to accommodate household formation, peak in the mid-1980's, and then decline in the 1990's. The actual pattern will, however, be influenced by general economic conditions and especially interest rates and Federal housing policies. The number of new housing starts is not expected to reach the very high levels attained during 1971-73 but a continuation of the trends towards more square footage per housing unit and a higher demand for detached single units versus multiple units may require as much lumber and plywood. Thus, price pressures from this source of demand is expected to be great in the early 1980's, so measures taken to increase timber supplies should be geared to meet the higher demands that will be encountered then.

In the mid-1960's there was a fundamental change in the softwood situation.

This was when softwood plywood prices shifted from declining relative to all commodity prices, to increasing relatively. Another fundamental shift may be upon us. The growth in demand for pulpwood has been greater than for any other timber product. A large proportion of this demand has been satisfied by the availability of softwood wood residues from lumber and plywood production plants for manufacture into pulp chips. This source of supply has essentially been exhausted. In consequence, the demand for softwood sawtimber for pulp products is expected to increase, especially in the South, and to account for an even larger share of softwood sawtimber consumption. So far pulpwood prices have been rising, but slowly. These developments will add a new source of upward price pressure on softwood in the 1980's and beyond. However, technological developments in the use of hardwood for pulp could alter this outlook.

Softwood sawtimber consumption projections have been developed assuming softwood lumber and plywood prices remain constant relative to prices generally, at the 1976-77 relationship (Figure II). The projected consumption requirement, with comparison, is as follows:

- - Billion Board Feet, International Scale - -

1966-69	186.8	1978-81(P)	210-220
1970-73	202.9	1982-85(P)	230-240
1974-77	199.6	1986-89(P)	245-255

Satisfying Softwood Sawtimber Demands

It will be difficult to satisfy the demand for softwood sawtimber with lumber and plywood prices rising no faster than general price inflation.

There are several reasons for this conclusion:

- o Even at current prices it is not economic to manage and harvest timber from millions of acres of forested land;
- o the private forest industry in the Northwest is harvesting the timber from the lands they own at a rate that cannot be sustained;
- o the Congress and the courts have tightened the constraints on the management of Federally-owned timber land, and increases in timber harvest can be achieved only if environmental concerns are allayed and procedural guidelines followed; and
- o Federal policies designed to constrain the upward movement in softwood lumber and plywood prices to a level equal to general price inflation will tend to encourage the export of logs, and shave the rate of growth in lumber imports and in production from private lands.

Sources of Softwood Sawtimber Production

In recent years the softwood sawtimber consumption requirement has been met increasingly from private lands and from imports:

Source of Softwood Sawtimber Consumption Requirement

	<u>Total</u>	<u>Private and State</u>	<u>Federal Lands</u>	<u>Net Imports</u>
			<u>Percent</u>	
1966-69	100	66	31	3
1970-73	100	69	26	5
1974-77	100	72	23	5

Estimates of softwood sawtimber consumption, production and net imports since 1966-69, and illustrative projections through 1986-89 are as

follows:

Softwood Sawtimber Consumption, Production and Net Imports

	<u>Consumption</u>	<u>Private and State</u>	<u>Federal Lands</u>	<u>Net Imports</u>
	<u>- - - -</u>	<u>Billion Board Feet,</u>	<u>International Scale</u>	<u>- - - -</u>
1966-69	186.8	122.5	58.4	5.9
1970-73	202.9	138.9	53.2	10.8
1974-77	199.6	143.7	45.8	10.1
1978-81(P)	210-220	155.0	45.0-50.0	10.0-15.0
1982-85(P)	230-240	165.0	50.0-55.0	15.0-20.0
1986-89(P)	245-255	173.0	52.0-57.0	20.0-25.0

Net softwood imports have ranged from 0.8 to 4.7 billion board feet over the past four years. Net imports increase when our lumber prices are rising, and decline when they fall. At the 1976-77 rate, we would be a net importer of 15.4 billion board feet during 1978-81. We export net imports to increase, but believe growth will be relatively down.

The imports are primarily lumber from Canada and they could be greater if the estimated economic potential sawtimber harvest is viable and developed through new investment. Their current softwood sawtimber harvest is 25.5 billion board feet. The economic potential harvest was recently estimated to be 34.0 billion board feet. The Canadian government is presently preparing new estimates of the long-term harvest potential.

Production from federal lands is not likely to exceed the boundaries of the above estimates unless significant changes in policies are decided upon. The above illustrative projections indicate the need for continued increases in the harvest from private and state levels. This will be difficult to achieve.

Private Forest Industry

The private forest industry, with about 20 percent of the softwood timberland and 15 percent of the inventory accounts for about 40 percent of the harvest (Table 1). This level of harvest cannot be maintained, especially in the West, even though these lands have the highest average productivity and are managed under much shorter rotations than Federally-owned lands. The old growth timber is being harvested from industry lands in the West, and as this process is completed, the total industry harvest is expected to decline over the next two decades. The management of industry lands is often much more intensive for timber relative to other uses, especially on the land managed by the pulp and paper industry. Given the high average productivity of industry lands and the fact that legal constraints on management are less restrictive than on public lands, it is likely that returns over cost before tax considerations are highest on these ownerships. While the smaller industry firms may be able to improve productivity through various technical assistance and financial assistance programs, the opportunity to significantly boost production on these lands is limited largely to taxation and pricing policies.

With the Northwest facing a period of 20 years or more of reduced levels of softwood production, as the private forest industry exhausts its inventories and has to reforest and await the regrowth of sawtimber stands on its own lands. There will be a considerable economic strain on the locally economies that are heavily dependent on the timber industry, unless there is a corresponding increase in timber harvest on Federal lands. Most of the Federally-owned softwood timber is in the West and there will

increased political pressure to expand the cut from Federal lands in this region. Environmentalists, however, can be counted upon to at least partially counter this pressure.

Non-Industrial Private Ownerships

The farm and miscellaneous private ownership class is the most highly fragmented ownership group with an average size of softwood sawtimber holding no greater than about 50 acres. About 35 percent of the softwood timberland is owned by farmers and other individuals. They have in excess of 20 percent of the softwood sawtimber inventory and presently are believed to account for about 30 percent of the harvest. On these lands harvests are substantially less than growth. Inventories are building up and augur higher supplies in the future. Productivity appears to average about the same as Federally-owned forests but rotations are much shorter and inventories per acre, therefore, are lower. Productivity appears to be lower than on forest industry lands. The level of land owners annual management inputs is reportedly low, lower than industry or public lands. Harvests from these lands appear to be responsive to higher prices. However, over the last 3 or 4 decades substantial Federal, state, and industry assistance--managerial, technical and financial--has been provided for many of the non-industrial private ownerships. The cumulative affects appear to be responsible for the large expected increase in growth and harvest projected for these lands over the next 50 years.

Since the additional supply of timber needed to dampen lumber price trends cannot all be provided from public lands, major increases in harvest from private land will be needed to meet future growth and timber demands

at reasonable prices. There are several existing Federal and State programs that provide technical and financial assistance to private woodlot owners, saw mills and loggers. Three approaches to increasing supplies through the private sector were examined.

There is positive evidence that various USDA technical assistance activities influence individual private owner timber harvest decisions favorable and also increase yields from individual saw mills and log harvest operations. However, the information on the net aggregate impact of such assistance on timber market prices and quantities supplied in the short run or the long run are imprecise. This makes it difficult to quantify the cost effectiveness of efforts designed to increase aggregate timber supplies and dampening prices through these measures. Some of these measures, such as acceleration of reforestation on private lands, largely in the South, will not impact on timber supplies until after the year 2000; others have an immediate impact.

Those of your study group familiar with the existing programs believe these activities are cost effective ways to help dampen price pressures and add to timber supplies and, therefore, warrant modest expansion with appropriate provisions for evaluating aggregate impact on the market supplies and prices. Agriculture and CEO support this view.

CWPS concedes that subsidized assistance (technical or financial) to private operations will increase their output, but they do not believe that further evaluation of the cost effectiveness of these programs is required. CWPS feels that these programs would not significantly alleviate price pressures; that there are only limited opportunities to promote harvests

on private lands or increase utilization of existing supplies cost effectively through government action; that the basic appeal of these programs lies in the view that they can substitute for a change in public land management policies, and that they are inexpensive. OMB has a similar view, but would support a thorough systematic analyses of opportunities to expand supplies from the private sector. Interior has not taken a position on this aspect of the study.

We recommend that programs designed to increase timber supplies and the utilization of those supplies in the private sector be carefully reviewed in the 1980-82 budget process, that a comprehensive plan for the evaluation of the impact of these measures be developed, and that the results be used to guide future decisions with respect to assistance to the private sector.

Agree _____

Disagree _____

Publicly Owned Lands

Federal and state ownership of softwood acreage accounts for about 44 percent of the forested land, containing over 60 percent of the inventory, but accounting for only 30 percent of the harvest. It appears that state lands have something on the order of 5 percent of the softwood timber land and account for 7 percent of the harvest. Most of the publicly owned lands are national forests, with they alone accounting for over 50 percent of the softwood sawtimber inventory.

The Federally-owned lands managed by the Bureau of Land Management are

among the more productive timber lands in the country, and have an average productivity well above the average on the more extensive national forests. The returns over cost ratio on the national forests varies widely; there are many forests where returns relative to cost are negative. In general, the national forests with high productivity are being harvested close to the even flow sustained yield level.

The rate and level of harvest on national forests and other public ownerships are lower than industry. This is due to a number of factors. First, public lands are more strongly oriented to management for other uses than timber. Public owners are by and large not committed to even flow sustained yield harvest management. Rotations are relatively long, 60 to 100 years and sometimes longer. Rates of harvest, in general, are inversely proportional to rotation age. The extensive area of old growth and current management policies involve carrying much larger inventories than will be required for managed second growth stands. Other value considerations such as esthetics and recreation often involve extending rotations and slower rates of harvest. Some lands which cannot be harvested due to ecological risks associated with unstable soils or uneconomic to market on today's market are either excluded from the allowable harvest calculation or have no viable markets for their inventory. Management costs are generally higher than for private lands due to the need to meet other multiple use management objectives and stricter environmental standards on public lands. The public softwood lands have a strong potential for increasing harvests, but attainment of that potential is limited by legal and procedural constraints, multiple use objectives, and market and economic considerations and public timber management policy itself.

Opportunities to increase supplies on Federally-owned lands under current resource management policy and departures from that policy have been examined. As previously noted, there is a wide range in the cost effectiveness of an incremental increase in timber supplies from Federal lands among the various regions. Receipts to cost ratios based on regional average cost data range from 5 to 1 to substantially less than 1 to 1 (Table 2). Under current policy we estimate that up to 1.5 billion board feet might be added to Federal supplies in regions with 1 to 1 or higher receipts to cost ratios based on regional averages. Consideration of incremental cost, however, indicates that only about half this amount would be cost effective in current markets.

We have also considered alternatives for accelerating the harvests of old growth from Federal lands to increase supplies. However, we were unable to obtain an adequate assessment of the environmental acceptability of such a departure from current policy. The consideration of such departures immediately raises policy questions in almost every aspect of Federal forest management. For this reason it seems desirable to review existing policy and outline the frame work within the acceleration of old growth harvest can be considered.

Policy Constraints in Federal Resource Management

As you know, the national forests and BLM Lands must be administered with a number of interests and considerations in mind. These forests represent an important national resource that serves a range of public purposes that includes, in addition to timber, outdoor recreation and wilderness, rangelands, watersheds, and wildlife and fish habitat. As a means of providing the broad parameters within which these forests are to be managed, the Congress has enacted a number of legislative requirements. These requirements reflect the result of prolonged political debate and, in a sense, reflect the political equilibrium that has been established among the competing political interests. Other requirements are derived from litigation. They supplement the legislation and also place important constraints on resource management. These constraints are similar for BLM lands and national forests. Any proposed deviation from these requirements must, therefore, be given very careful consideration lest this political-legal equilibrium be disturbed.

The key constraints as they apply to national forests are these:

RARE II. Currently, harvests cannot take place on 62 million acres of roadless areas in national forests, pending completion of the roadless area review (RARE II). RARE II is scheduled for completion at the end of this year. At that time, some of these areas will be recommended for wilderness status, others for return to multiple use management, including timber, and a third group for further study. RARE II is a major issue. It needs to be resolved on schedule.

A draft Environmental Impact Statement on RARE II was released for public review in mid-June. In the fall, all public comments will be analyzed and provide a partial basis for Department of Agriculture actions and recommendations, which will include:

- a proposal to the Administration that those RARE II areas be suited for the National Wilderness Preservation System be recommended to Congress for such designation.
- lifting the multiple use development moratorium on those RARE II areas that are not to be considered for wilderness.
- further study of any areas not allocated to wilderness or multiple use.

Completing RARE II on schedule is important in the present context because the RARE II areas include nearly one-third (29 of 92 million acres) of the commercial timber-producing lands in the National Forest System. Estimates of timber production possibilities provided by the Forest Service assume

that the majority of these lands will be available in the future for timber production. When RARE II has been completed, it will be possible for the Forest Service to provide better estimates and to plan future levels of harvesting with more certainty than has been true in the recent past.

The use of Presidential Executive Orders could facilitate prompt allocation of some RARE II areas to nonwilderness (including timber harvest). Executive Orders would preclude administrative appeals of Department of Agriculture decisions and minimize the risk of delaying litigation.

Multiple Use. The Multiple Use Sustained-Yield Act of 1960 requires that the national forests shall be administered with a variety of purposes in mind, including outdoor recreation, range, timber, watershed, and wildlife fish. ^{1/}

Sustained Yield. Under Section 13 of the National Forest Management Act, the Secretary of Agriculture shall, except in prescribed circumstances, limit the sale of timber from each national forest to a quantity which can be removed from such forest annually in perpetuity on a sustained-yield basis. This is the current policy and it is referred to as nondeclining even-flow or just even flow.

Under the same Section 13, the Secretary has the authority to establish an allowable sale quantity for any decade which exceeds the even-flow limit for a particular forest. Any such departure, however, must be consistent with the multiple use objectives in the land management plan prepared by the Forest Service for that forest, and must not lead to future harvest that would be less than the established long-term, even-flow sustained yield level. The Department of Agriculture has now nearly completed developing proposed regulations to exercise this departure authority within the framework of the 1976 Act.

1/ More specifically, the Act defines multiple-use to mean: "The management of all the various renewable surface resources of the national forests so that they are utilized in the combination that will best meet the needs of the American people; making the most judicious use of the land for some or all of these resources or related services over areas large enough to provide sufficient latitude for periodic adjustments in use to conform to changing needs and conditions; that some land will be used for less than all of the resources; and harmonious and coordinated management of the various resources, each with the other, without impairment of the productivity of the land, with consideration being given to the relative values of the various resources, and not necessarily the combination of uses that will give the greatest dollar return or the greatest unit output."

Pursuit of the policy of even-flow effectively precludes actions that could temporarily increase the harvest without reducing future harvests on the long-run sustainable yield. The public forest lands contain a substantial amount of old growth -- trees that are beyond the age of rapid growth. Because of this, it is possible on a few public forest lands in the West to harvest additional volume for several decades without falling below the harvest dictated by the long-run sustainable yield. In other words, there is a surplus of timber beyond the volume needed to maintain harvests at the sustained yield level. However, the amount of acceleration of old growth that is feasible varies indirectly with the amount of investment and the long-term sustained yield level. More acceleration is possible with low sustained yield. It also means lower timber supply levels from national forests for future generations. Higher sustained yield levels provide higher supplies now and in the long run but limit opportunities for accelerating old growth harvests beyond that level. Higher sustained yield also requires higher investments now and in the future to maintain that yield.

Land Management Plans. The National Forest Management Act of 1976 requires the Forest Service to prepare land management plans under principles of multiple use for each unit of the National Forest System and timber harvesting must be consistent with these plans. Land management plans must be updated for all national forests by 1985. In preparing these plans, the Forest Service is required to consider the economic and environmental effects of the plans, which must also be evaluated in an environmental impact statement. In addition, The Forest Service is to provide for public participation in the development, review, and revision of all land management plans.

The even-flow sustained yield must be included as one alternative in the management plan updating process. One or more departures from even flow can be included among the alternatives and evaluated in the draft environmental impact statement. Decisions to depart from even flow can only be made by completing the management plan update with public participation consistent with the 1976 Act.

Renewable Resource Assessment. Finally, the Forest and Rangeland Renewable Resources Planning Act of 1974 (RPA) requires the Secretary of Agriculture to prepare a Renewable Resource Assessment that inventories present and potential renewable resources in the National Forest System and analyzes the present and projected demand for them. Based on this assessment and after public participation, a recommended Renewable Resource Program that establishes national goals for the protection, management, and development of the system is transmitted to the President. The process includes an evaluation of overall issues of concern to the general public. The Administration resolution of these issues provides guidelines for the selection of a recommended program. Changes in the long-term goals determined in this way can be made only through the RPA process. Progress toward the goals is determined through the annual program planning and budgeting process consistent with policy guidelines established by the President and Congress for implementation of the recommended program. The policy guidelines for the current 1975 RPA program were established by President Ford and have not yet been updated by this Administration.

The Political Situation

There is extreme political nervousness over the handling of these issues. Environmentalists are concerned that actions might be taken in the name of fighting inflation that would have a long-term effect of assigning higher relative importance to economic considerations than environmental considerations in the management of Federal forest lands. They are, therefore, watching this decision carefully and will probably challenge any significant departures from present policy. This interest will look with greatest favor on efforts to increase production from private lands.

The forest industry and those concerned with rapid inflation in lumber prices argue that economic considerations are not adequately considered under current policy guidelines. More specifically, they argue that the current non-declining even flow harvest policy places unnecessarily fails both to achieve local economic stability and to alleviate upward pressures on timber and forest-product prices during periods of heavy demand.

Some segments of the western forest industry will probably insist that departures from the even flow policy be seriously evaluated in the national forest land management planning process. BLM has already included several departure alternatives in its draft plans and environmental impact statement for updating the management plan for the Josephine District Unit. The Department of Interior plans to include departure alternatives and updating plans for all of its master planning units. However, the even flow alternative is the indicated preferred alternative at this time.

Federal Lands

There are two major options for significantly increasing harvests from Federal lands.

Increase Harvest Within Current Even-Flow Policy. Increasing the harvest of mature timber and the salvage of dead and dying timber from national forests and BLM lands is for a modest amount of timber a cost-effective means for increasing timber supplies from Federal lands. This can be done immediately within existing management constraints. We believe an increase in funding for this purpose that concentrates on high productivity opportunities on national forests and BLM lands is worth serious consideration.

For an average annual outlay of about \$140 million (offset by receipts and credits of \$100 million), the Administration might reasonably commit itself to an increase of 500 to 700 million board feet on national forests (above the 11.5 billion board feet base) over the next 3 years, subject to regular budget review (see table 6).

The relationship between costs and receipts is somewhat misleading in that forest roads and trails included here will have substantial use beyond recovery of this timber. Also, some of the reforestation and stand improvement investments is for increases in the sustained yield levels beyond the heaviest increases reflected in Table 6. So, their full costs should not be charged to this purpose, but averages must be shown to be productive investments for longer term purposes.

An additional increase of 30 million board feet attainable from BLM land for an added annual cost of a million dollars.

The foregoing harvest increases could be sustainable through 1990. They would be consistent with but lower than increases now being considered by Congress for the FY 1979 budget. Funds for these increases should be carefully targeted to those forest areas demonstrating the highest returns over cost rates.

Our study indicates that additional harvest increases may be available up to a total of 1.5 billion feet by 1985. However, further increments above the 530-730 billion feet cited above require further analyses and review for cost-effectiveness, and consistency with the RPA program balance.

This recommended initiative is consistent with current timber production goals established through the RPA program under principles of multiple use and sustained yield. It does not involve revisions in current land management plans or the preparation of environmental impact statements under NEPA. However, OMB points out that some of the national forest timber harvest in FY 1979 base is considered to be noncost-effective, and could offset the recommended increase if removed from the base. A part of that amount is related to other objectives such as community development and employment support. You have asked the Department of Agriculture to address this matter in the FY 1980 program budget planning process in a separate directive to the Secretary, and this work is underway.

Temporary Departure from Even-flows. Under Section 113 of the National Forest Management Act of 1976, accelerating the cut of old growth timber in selected national forests by departing from current even flow timber harvest policies is permissible if done consistently with other multiple-use objectives. It can be a cost-effective means for increasing the

Nation's supply of timber. The study group has examined preliminary analyses of opportunities for such expansion for eight national forests. These analyses indicate technical feasibility, but do not provide an adequate basis for assessing environmental acceptability. Adequate environmental assessments of the departure alternative must be made on the ground and for public decision purposes must involve public participation. This is the process followed by BLM in evaluating departure alternatives for the Josephine District Plan. The draft environmental impact statement for the Josephine District management alternatives is now out for public comments. The entire planning process, for the Josephine District will take 42 months.

The USDA is preparing regulations for considering the departure alternative within the framework of the National Forest Management Act. They will shortly be submitted for public comment. Final regulations are scheduled for promulgation in October 1978.

The Forest Service estimates that it would take 1 to 3 years to complete the management plan updating process on national forests, where the departure from even-flow is a reasonably feasible alternative to consider. Thus, the earliest that updated planning alternatives including the departure alternative could be considered for public decision purposes on any national forests appears to be 1980-1981. It is possible to make assessments of the departure

alternative consistent with on-the-ground environmental impact statement process but without public participation in about 9 months. The Forest Service is willing to do this if it would be useful. However, the results would only be informative about the relative merits of the alternative. The evaluation would have to be redone on-the-ground through the regular management plan updating process with public participation for program and policy decision purposes.

Your guidance on acceleration in the evaluation of the departure alternative on national forests would be helpful in setting the timeframe and procedures for assessing its merits.

The Department's of Agriculture and Interior support the evaluation of temporary departures from the even flow policy through the regular planning processes within a reasonable timeframe. CEQ does not support the departure alternative because of environmental concerns and political considerations. However, it does not oppose evaluation of departure alternatives consistent with careful interpretation of the legal limitations relating to multiple use, environmental values and the constraint to return to even flow sustained yield harvest levels.

CWPS believes that significant steps to increase timber supplies can only be taken by departing from current management policies on the public lands. They stress a high level commitment to re-evaluation of various aspects of national forest policy and specific directives from the President that will assure maximum effort and speed in addressing the departure alternative and related issues concerning selection of rotation ages and road requirements. OMB has similar views and supports CWPS.

THE WHITE HOUSE
WASHINGTON

Canjano memo does NOT
need to go to President -
It's out of date. ^{7/18}
- Confirmed by
Phil Baker

McI's memo from last week
also out of date - per Nichols.
- Confirmed by
Terry Fort



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUL 10 1978

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM MCINTYRE *Jim*
SUBJECT: OMB Guidelines for Matching Programs

We have, in conjunction with the Domestic Policy Staff, completed the drafting of guidelines for the computerized matching of data about individuals which will apply to agency programs to detect fraud and unauthorized payments. We plan to publish these guidelines for agency and public comment later this week.

These guidelines cover HEW's proposals to match the Federal payroll computer tapes of the Department of Defense and the Civil Service Commission with the list of alleged defaulters under the Guaranteed Student Loan Program, and with the list of recipients of old age and disability benefits from the Social Security Administration. We have worked with HEW, other agencies, and the Congress to develop these guidelines, and we believe HEW and the others will agree to them. The guidelines are not final -- they are being published only for comment -- but we have informed HEW that they can go ahead with their matching programs if they are conducted according to the guidelines (an offer which we extended several weeks ago). If HEW agrees to conduct these programs according to the guidelines, they may begin the programs immediately, and we will proceed to obtain public and agency comments.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

July 11, 1978

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO *Joe*

SUBJECT: STUDENT LOAN AND GRANT PROGRAMS

As you requested during our legislative briefing two weeks ago, I am in this memorandum describing our efforts to eliminate fraud, abuse, and error in the student financial assistance programs. I am scheduled to testify on this subject on July 27 before Representative L. H. Fountain's subcommittee of the House Committee on Government Operations. This hearing will be critical of the loan and grant programs -- but I hope to shift the focus and to demonstrate that this Administration, in contrast to Nixon-Ford, is moving aggressively on the problems.

We have been most concerned with the two Federal loan programs: the National Direct Student Loan Program (NDSL), which is operated by educational institutions (and accounts for 48 percent of the loans made or guaranteed by the Federal government) and the Guaranteed Student Loan Program which is administered directly by the Federal government (and accounts for 52 percent of the loans).

These two programs have been of enormous benefit to millions of students. For example, during the 1977-78 academic year:

- The Federal government provided \$310 million in capital contributions for the NDSL program and institutions made 831,000 loans for a total loan value of \$580 million.
- About one million loans were insured under the Guaranteed Student Loan Program for a total loan value of \$1.5 billion.

We have also been concerned about the Federally administered Basic Educational Opportunity Grant Program (BEOG). Two million students received grants under the BEOG program in an aggregate amount of \$1.6 billion during the 1977-78 school year.

The Problems

When we arrived at HEW we found that these student assistance programs were plagued by four interrelated problems:

- The programs had been poorly -- even negligently -- administered. The Department had failed, in many areas, to develop adequate regulations and procedures to ensure the honest and responsible administration of these loan and grant programs, and did not enforce effectively those regulations that it did publish. In addition, almost no steps had ever been taken by HEW to collect on the loans that it acquired from the original lenders through default.
- Administration of the assistance programs by colleges, universities and technical schools was often lax or non-existent, partly because HEW never made clear what would be required, but partly because of inattention by these institutions themselves.
- Some of the schools enrolling students through the use of financial assistance programs offered little of educational or vocational value, thus exploiting the students and improperly taking their loan and grant money. In certain instances, educational institutions -- mainly proprietary schools -- may well have committed outright fraud. (More than 50 of these schools are currently under investigation by the HEW Inspector General.)
- Thousands of students did not view their obligation to repay their loans seriously.

GSL. As a result, we found that in the Guaranteed Student Loan Program, there were more than 300,000 Federally insured loans in default involving approximately \$300 million. This was a default rate of 13 percent. One source of the problem in this program was easy to identify: As of November 1977, virtually no students in default had ever received a bill from the Federal government.

NDSL. We found the NDSL program was operating at an average default rate of about 20 percent. Approximately two hundred institutions have default rates higher than 50 percent; some higher than 80 percent. An estimated 700,000 students had defaulted on NDSL notes involving \$600 million in unpaid principal.

BEOG. In the Basic Educational Opportunity Grant program there had been no effective procedure for verifying the information supplied on the grant application form before awards were made, although there was a serious concern that some applicants were supplying false information in order to meet eligibility criteria or to receive higher awards than they deserved.

Our Efforts

We have taken vigorous actions to correct these and other problems.

In March 1977, we consolidated the student financial assistance programs into a single bureau. By summer, we had found the appropriate financial officer, with computer systems experience, to head the new bureau. But his efforts have been hamstrung by his inability to appoint a single person in his new unit -- all the civil service personnel were locked in. Nonetheless, although our clean-up efforts are still short-handed and less than a year old, we have made substantial progress.

● Guaranteed Student Loan Program

- A computerized billing system has been put in place in all regions. Billing letters have now been mailed to all defaulters whose addresses we have.
- Operation Cross-Check was begun. This project involves a computer match of the Federal government's civilian payroll against the Guaranteed Student Loan default file. Despite a note from you indicating your desire to move forward, our effort to initiate a GSL-military payroll match is still being held up in OMB. In a first phase, which involved only HEW employees, almost one half of the defaulters are now repaying or have repaid their loans. (Others are, for example, bankrupt, dead or no longer employed by HEW.)
- In the quarter ending June 30, 1978, we have gotten 15,000 student loans either repaid or in repayment, as compared with less than 10,000 for the entire fiscal year ending September 30, 1977.

- In the last nine months we have referred over 1,500 cases to U.S. Attorneys, compared to about 500 over the previous five years.
- We have also taken steps to contract, on a pilot basis, with private agencies in two regions for the collection of defaulted student loans. In the other eight regions, we have proposed to increase both the number and effectiveness of Federal collections staff. After a long delay at OMB, these efforts were recently approved.

● National Direct Student Loan Program

- In March I sent a letter to the presidents of all participating schools, urging them to improve the administration of their programs and to comply with the requirements for following up on defaulted loans.
- As we have discussed in reference to Bishop College, many of these institutions with high default rates are predominately black -- 51 of the 200 with default rates over 50 percent. In most cases, the default problem reflects more general administrative inadequacies. In April, the Office of Education contacted schools in the Title III, Developing Institutions program with high default rates, offering them technical assistance and encouraging them to use their Title III funds to improve their student financial aid administration.
- The Office of Education has announced it will accept defaulted loans assigned to it by educational institutions. Although the authority for such assignments was contained in the Education Amendments of 1972, this was the first action taken by an Administration to implement these provisions. To date, approximately 130,000 requests have been received from institutions for the necessary assignment forms. With regard to the question you asked at the briefing, we can use State law to garnish the salaries of individuals who have defaulted on these loans.

- The Office of Education has begun systematic onsite program reviews at selected institutions where the student default rate is above average or where other problems have been indicated.

- Basic Educational Opportunity Grants

- The Office of Education instituted a computer screening program to detect and reject those applications which are incomplete or contain inconsistent information. About 30 percent of this year's applications were rejected, and students were required to provide additional information, before their applications could be processed.
- We have also begun an annual selection of 200,000 applications that will receive intensive scrutiny -- the majority chosen because they contain questionable items, and some chosen at random. Students will be required to substantiate the information they have provided in much the same way a tax return selected for an audit by the IRS is verified.
- We now have computer systems to detect students who are obtaining more than one grant.

Results to Date

There are clear signs of improvement.

During the last quarter in the GSL program, we collected \$4.5 million on defaulted loans -- twice the amount collected for the same quarter in Fiscal Years 1976 and 1977. In addition, approximately 15,000 student defaulters have begun repayment or fulfilled their obligation during the last fiscal quarter -- more than one and one half times the total number for all of Fiscal Year 1977. Federal collectors are converting defaulted accounts to repayment at a rate of 1,200 per week -- more than four times the rate a year ago.

We anticipate, however, that in the near term the backlog of defaulted loans will continue to grow because default claims are being sent in from lenders at a faster rate than our collections. If the Congress approves our proposed increase in Federal collections staff, we hope to eliminate further increases and to begin reducing this backlog by the end of the fiscal year. We expect that the default rate will drop below 12 percent for this fiscal year.

We do not expect to see substantial results in the campus-based National Direct Student Loan Program until next year. We are currently developing a procedure for the NDSL program that will link new Federal capital contributions to the success schools have in reducing their default rate. We expect to have this new procedure in place this Fall.

In the BEOG program, we estimate that our computer screening procedures will save at least \$100 million this year in overpayments, with the primary impact of our efforts to be felt during the next fiscal year.

Conclusion

We are, thus, intent on vastly improving the administration of these programs, both at the Federal level and by the institutions involved. I believe that, with the steps to date, we have made significant progress in restoring the integrity of our student financial assistance programs -- progress that will show even more dramatic results over the next 12-18 months.